

The Financial Times of Indiana

House Bill 1004 news from the Office of Governor Frank O'Bannon

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The News in Brief...

House Bill 1004 will be heard by the Senate Rules Committee at 10 a.m. Monday, February 11, in Room 431 of the Indiana Statehouse. Open to the public, this hearing is the first opportunity for Senate discussion on the bill. If approved in committee, the bill will be reassigned to the Senate Finance Committee for further review and possible amendment. In its current form, HB 1004 contains many of Governor O'Bannon and Lieutenant Governor Kernan's proposals to balance the budget without harming the progress of our public schools; protect homeowners from court-ordered property tax increases by cutting those taxes; and help grow good jobs by restructuring the state's tax system.

Cutting Property Taxes Through Restructuring

- Shelters homeowners from the effects of court-ordered reassessment by increasing the homestead credit to 20%, effective January 2004
- Extends reassessment for one year so it is effective with taxes first payable in 2004 rather than in 2003
- Reduces inventory tax by 50% after applying the \$37,500 deduction for business personal property
- Removes 50% of Family and Children Fund and 100% of other remaining welfare levies from property tax, effective January 2004
- Increases number of working poor eligible for earned income tax deduction and simplifies the filing process
- Increases renters' deduction from \$2,000 to \$4,000
- Removes 50% of the school general fund property tax levy, effective January 2004.
- Retains property tax replacement credits at 10 %

The Cost of Restructuring

- Increases sales tax by 1% to offset the cut in property taxes for Hoosiers
- Imposes a franchise tax instead of a gross income tax to eliminate most of the burden on businesses with little or no net income – 90% of businesses would pay \$50 a year or less
- Establishes a new, 8.5 % corporate net income tax and repeals current corporate net income taxes
- Updates economic development programs to keep Indiana competitive in attracting new jobs and keeping existing ones
- Retains 1.2 % tax on utilities' gross receipts

The Price of Not Passing HB 1004

Last year, the property tax on a 10-year-old home in northeastern Marion County was \$7,134. **Without tax restructuring, the bill will increase by 47% in 2003**

Last year, the property tax on a 25-year old home in southern Marion County was \$1,540. **Without tax restructuring, the 2003 bill will increase by 26%**

On average statewide, Hoosier's property tax bills will **increase by 14% unless taxes are restructured.**

Source: Peterson Testimony 1-16-02, State Tax Board

HB 1004 Highlights

Balancing the Budget By Cutting State Spending

- Cuts higher education operating expenses by \$29 million in FY 03
- Cuts higher education repair and rehabilitation expenses by \$16 million per year
- Reduces public school state funding by \$115 million but allows school corporations to replace that cut by transferring funds from transportation, capital projects, or debt service funds
- Caps future state spending growth, excluding investments in education, teachers' pensions, Medicaid and future property tax and other relief

The Cost of Balancing the Budget

- Increases cigarette tax by 39.5 cents = \$295 million
- Increases riverboat admission tax by \$1 = 42 million
- Increases riverboat wagering tax by 2.5% for revenue above \$25 million = \$40 million
- Increases various state agency user fees = \$4 million
- Adds a \$2/day nursing home bed fee = \$23.6 million and leverages \$38.5 million in new federal funds
- Uses \$540 million from gaming reserves and Rainy Day Fund
- Uses \$90 million per year from tobacco settlement revenues for health care programs
- Uses \$55 million from dedicated funds instead of the General Fund for state operating expenses, reducing highway and BMV funding for fiscal year 2003
- Delays insurance premium tax cut for two years = \$30 million over four years
- Suspends income tax breaks for two years = Approx. \$150 M/year

The Price of Not Passing HB 1004

Three Indiana educators groups analyzed what school corporations might do if their support from the state was cut by \$115 million and not replaced. One scenario is to fire teachers to cut costs. The group's analysis shows what that could mean statewide:

- Fort Wayne Community Allen County – **96 teachers laid-off**
- Evansville-Vanderburgh School Corp. -- **63 teachers laid-off**
- Pike Township Marion County – **27 teachers laid-off**
- P-H-M St. Joseph County – **27 teachers laid-off**
- Linton-Stockton Greene County – **3 teachers laid-off**

Source: IN School Board Association, IN Association of Public School Superintendents, IN Association of School Business Officers